THE ATLANTA ECONOMIC REVIEW

JANUARY, 1958
VOL. VIII No. 1

A SYMPOSIUM

"CAN THE UNITED STATES ACHIEVE IN THIS GENERATION CONTINUOUS HIGH LEVEL EMPLOYMENT WITHOUT EXPERIENCING A RISING PRICE LEVEL?"

Because of the timely nature of this question and its great importance to the American people, the Atlanta Economic Review *has solicited expressions of opinion on this vital issue from ten respected American economists.*

These are their views.

Harlan M. Smith, Associate Professor of Economics, University of Minnesota:

This is the most vital economic issue of our time. No one yet knows enough to provide a definitive answer, but more is known that bears on the answer than can be stated in a short space. I will confine my remarks to a few generalizations that are not highly controversial and a few that represent the present stage of my own thinking.

(1) Altogether the experience of the past, though worth examining, is inconclusive with regard to the future's answer to the question.

(2) Uninterrupted high level employment can be achieved only by sufficiently high government expenditures; otherwise the private sector of the economy tends to generate at least minor and temporary fluctuations in employment, though these can be offset to a considerable extent by monetary-fiscal policy.

(3) Inflation comes from either or both of two sources: excess demand or "institutionalized" upward pressure on "costs," especially wage rates. The latter pressure is especially effective in the presence of the former (excess demand). Excess demand can come either from government expenditures or from a rise in the rate of private investment above the level that can be financed by the saving forthcoming at full employment. Non-economic factors are of great importance in determining what combination of these three will present inflationary threats at various times, and accurate prediction of these is impossible.

(4) It is my personal opinion that inflationary pressure from private investment alone would be the easiest to restrain and that an inflationary rise in military expenditures is likely and presents the most difficult problem, partly because it tends to induce the other two inflationary pressures as well. The amount of inflationary pressure will probably be variable rather than constant. We know from experience much about how to deal with the excess demand component of inflation; experience has not yet shown us how best to deal with the "wage-push" component. How much inflation our generation suffers may depend more, however, upon our willingness to use what we know to combat inflation than upon our lack of additional knowledge.

(5) When excess demand threatens inflation, the remedy can lie only in the reduction of some groups' demand, either in the government, business, or consumer sectors, for goods and services in general or for some specific things. Either the source of the excess demand must be eliminated or the real income of some other groups must be reduced. Monetary and fiscal measures can be adapted to this end. The problem of the future is whether the groups adversely affected and the public in general will accept variations in the pressures upon them from these measures in order that private investment and government may have periodically a larger fraction of the national output. In particular, the question is whether most restrictive measures will be met with effective opposition or be met by vigorous demands for higher income to offset the impact of any restrictive measures, and whether business will compete by offering higher prices for the resources it wants in an expanding market. Since we have already experienced such reactions, it is problematical how well we will control inflation even when we

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know how. Fighting the controls because they hurt someone does not, however, eliminate the hurt; it merely shifts it via inflation to groups with accumulated dollar savings and others who cannot protect themselves and whom a wise economic policy would not leave unprotected against the ravages of inflation. It behooves every responsible politician who opposes an anti-inflation measure for the "harm" it does to say what demand he would reduce instead, and how. It is ultimately a matter of equity and social policy where excess demand is reduced.

(6) Closely related to the above, but arising chiefly in connection with labor union pressures on wage rates, is the problem of making full employment without inflation compatible with efforts of any group to improve its position in the income distribution. It would be inequitable to use the inflation danger as an excuse to try to freeze any group's income status; though the American sense of justice is also affronted by allowing any group to profiteer from an inflationary situation while restricting other groups sharply. The task of the future is to find a way to prevent inflation without denying any group the right to try to improve its status justly. Control of the money supply may be an important part of the answer, though the whole answer, if there is one, cannot yet be seen.

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Sue N. Atkinson, Assistant Professor of Economics, Georgia State College of Business Administration:

Over-full employment such as the United States has experienced during most of the post war period is undesirable as a long-run goal. Our employment target must leave room for:

(1) Frictional unemployment, since elimination requires an excess of labor demand over supply with consequent upward pressure on wages;

(2) Unemployment in particular industries and regions associated with decline and expansion as the structure of the economy changes;

(3) Unemployment due to problems of pricing and structure in particular industries, rather than to a general decline in effective demand.

Unemployment of types (1) and (2) can be shortened by better training and relocation programs. All three types represent a functional use of unemployment to enforce needed change. Their deliberate elimination by general inflation can only obscure this need and will guarantee a steadily rising price level.

Is there any reason to believe that a more modest high-level employment goal and price stability targets are incompatible? I think not. The opinion to the contrary errs in that it stresses concentration on 100 per cent full employment, leaving prices and income to take care of themselves. The concentration should be, rather, on stability of prices and a level of income that will of themselves bring about a reasonable employment goal.

The chief fear seems to be that with any reasonably high level of employment, union pressure for wage increases in excess of the annual increase in productivity will force prices upward. This fear is based on our experience of the last 12 years, an unfortunate period on which to make such judgments. The wage-price spiral experienced since the war is a by-product of an unavoidably inflationary situation. A rise in prices when controls were removed was inevitable, given pent-up consumer demand and liquidity, and equally inevitable was the push-pull effect on cost and demand of efforts of organized labor to keep pace. The initial price rise preceded and set in motion this spiral; inflationary fuel had to be present to maintain it. Labor and other producer groups have been able to secure advances in money income because, with steady expansion of consumer buying power, firms could afford to pay—indeed, they could not afford to refuse to pay.

Past periods have demonstrated that under conditions of relative price and income stability, pressure for increases in wages exceeding increases in productivity meet with firm opposition. If demands on the part of individual unions are forced through and unemployment results, it should not be eliminated by general inflation. This condition would fall under category Number 3. The idea that unions will push for higher wages in the face of a decline in

ATLANTA ECONOMIC REVIEW

Published monthly by the

Bureau of Business and Economic Research
School of Business Administration
Georgia State College of Business Administration
Noah Langdale, Jr., President
33 Gilmer Street, S. E., Atlanta 3, Ga.

employment in that industry is, I think, much exaggerated as is union-enforced inflexibility of wages downward.

The prime requirement is, of course, wisdom in handling fiscal and monetary weapons so as to avoid wide, cumulative swings in income and prices. With reasonably high employment as a goal, with good timing and adequate policy flexibility, and with economic rather than military or political considerations paramount, it surely is possible to have both price stability and a high level of employment. The alternative is to argue that a free enterprise economy must choose between massive unemployment and massive inflation, a view to which I think few of us would subscribe.

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James E. Hibdon, Associate Professor of Economics, Georgia State College of Business Administration:

Over the past quarter century significant advances have been made by economists in understanding the operation of our economy. Although much remains to be learned, one may be reasonably optimistic that the question can be answered affirmatively—that it is within our power to attain the dual goals set forth in the question. Their achievement will not come automatically, but only if deliberate action is taken to form and implement policies that will promote their attainment.

It is obviously impossible to present the gamut of policies that are required, but allusion may be made to certain ones necessary to create the appropriate environment for success. First, positive efforts must be made to create monetary stability. At present, this is largely the province of the Federal Reserve System, which must be given the independence it has often lacked in the past score of years to exercise its powers in this direction. Even if this is done, it will not be sufficient because of inherent weaknesses in the control ability of the System, weaknesses which much be compensated for by supplementary efforts of the Federal government. More specifically, Congress must assume a greater responsibility for monetary stability by exerting through appropriate fiscal policies the monetary powers residing in any sovereign authority.

Second, the Federal government must strengthen its efforts to maintain the flexibility of the economy necessary for it to adjust to changing circumstances, a flexibility in prices, costs, output, and resource use and mobility. This will necessitate some redirection of policy in regard to agriculture, business, and labor to eliminate rigidities that presently hinder adjustments necessary in a dynamic economy. It also will require a more definite recognition of the problem of the security of the individual as a potential block to adjustment. Our economic system requires transitional unemployment as the economy adjusts to change, a perpetual element in a dynamic economy and an inevitable companion of progress. The cost of that unemployment is a cost of using the system and should be borne by society, not the individual.

To say that it is possible to adopt appropriate policies that will permit attainment of high-level employment and price stability does not assure success. The critical issue is whether or not it will be done. Are individuals, economic groups, and Congress willing to pay the price which achievement of the goals requires? Is Congress willing to assume responsibility for implementing necessary policies in the face of the strong political pressures that will arise? In effect, it must create a climate of stability that forces the burden of adjustment on individual segments of business, labor, and agriculture and requires them to be accountable, both employment- and profit-wise, for their decisions. It must limit the agglomerations of economic power over the markets that have developed. It must assume responsibility for a stabilizing fiscal-monetary policy, heedless of the perennial twin cries for reduced taxes and more spending. It must ignore the demands for inflation by particular groups who wish to be relieved of the economic consequences which stability has placed on them for their ill-advised actions by shifting those consequences to others through inflation. Specifically, inefficiency and irresponsible pricing of products or services by business firms or labor groups possessing monopolistic power will be revealed in the form of business losses and unemployment. These acts will not be concealed by an inflation which shifts the effect to a tax on the economic welfare of more competitive or fixed income groups.

Political realities being what they are, it is doubtful that Congress can withstand the pressures of special interest groups. It is especially doubtful when coupled with the current prevalence of the notion that a little inflation annually will insure high employment and with the obscuring of effects and responsibilities for actions that inflation causes. Although recent statements by leaders in labor, business, and agriculture indicate a growing willingness to put the social above the particular welfare and tend to provide the support Congress would need, they are inadequate as a basis for real optimism. One may expect, therefore, some degree of continuous inflationary action as the course of least resistance is followed. By itself, this will not assure high-level employment, and it is possible that some structural changes in our economic system may occur as the government, in devising expedients to cope with the unemployment problem, expands its sphere of influence and control.

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Henry Oliver, Professor of Economics Indiana University:

Continuous high-level employment without a rising price level appears to be highly improbable.

Prosperity and price inflation are not inseparable, but it is too much to expect that brisk demand for goods and labor will always, or nearly always, be accompanied by conditions permitting price stability. Some persons have derived hope from the stable retail prices experienced during 1925-29 and 1951-55. Within recent decades, however, these two periods have constituted exceptions to the general rule, and the absence of inflation during them seems attributable to special circumstances. Both were interrupted by brief, minor recessions (1927 and 1954), and both were characterized by agricultural price declines. Price stability during 1951-55 seems also in part attributable to speculation's having compressed the inflationary rise into a period of a few months during 1950-51. Moreover, even if periods like 1925-29 and 1951-55 could be experienced more frequently, the general conclusion stated above still holds. If we have price stability during some prosperous periods and price inflation during others, the price trend during prosperity is upward.

Thus, unless the price rises that occur during some prosperous periods are matched by price falls that occur during recessions, the general trend in prices will be upward. Indeed, the trend is likely to be inflationary unless we experience fairly deep and fairly long recessions. The dips in 1949 and 1954 had little effect upon retail prices, and even the major downturn of 1937-38 did not push down prices very far. Strong labor unions, agricultural price supports, and oligopolistic and other "administered" prices in industry form major barriers to price-level declines.

Perhaps the major reason why high-level employment often brings about inflation is that a dynamic economy requires frequent shifts in the allocation of resources. Within a private enterprise economy these shifts very often require changes in price ratios; and, when there are strong barriers to price reductions, changes in price ratios most frequently take the form of some prices rising while the others remain constant. The best hope of the economy's making the necessary reallocations and yet avoiding inflation is a favorable pattern of technological change; i.e., one which causes changes in "real costs" to offset higher resource prices in the expanding areas.

Pressure brought by labor unions to increase wage rates more rapidly than productivity may be a second cause of price inflation. However, statistical studies of union and non-union wage rates provide more evidence to question than to support this thesis.

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Sterling H. Schoen, Professor of Management, Washington University:

Large labor unions, large business units, and big government will create problems in maintaining a stable price level during periods of peace-time full employment.[1]

Labor unions are very large and very powerful. They continue to pursue on many fronts the social objective of obtaining a larger share of national income for their members. In pursuit of this objective, unions negotiate both wage increases and non-cash benefits which raise costs. In some industries these increases are absorbed through increases in productivity. However, in the many important segments of the economy where productivity has not risen, wage increases result in higher prices.

Wage increases provide an initial fillip to prices, the effect of which tends to wane in many industries as productivity absorbs the initial impact upon costs. However, a recent innovation, the escalator clause, tends to reduce the opportunity for increased productivity to operate to hold down prices. The initial increase in prices resulting from a new wage contract tends to be perpetuated through the cost-of-living adjustment which is tied to price levels.

Productivity adjustments constitute another important force tending to push up the price level. To the degree that productivity adjustments are negotiated with large pattern-setting companies in important industries, these adjustments are more or less reflected in all wage negotiations. Further, since increases in productivity do not proceed smoothly from firm to firm or industry to industry from one year to another, further pressures upon the price level develop.

Large business organizations which are able to calculate the impact of their pricing policies upon their costs and profits make it more difficult to maintain a stable price level. To these firms pressures for wage increases by powerful labor unions constitute another cost factor to be reckoned with. They adjust prices and level of output to maximize profits under the new labor cost situation. (We may even experience the phenomenon of simultaneously rising prices and rising unemployment under such a situation.)

Our economy has experienced a rising price level during the past five years in spite of the fact that the administration in Washington is committed to a policy of economic stability. A government sensitive to pressure groups finds it most difficult to resist pressures from business, labor organizations, and other interested groups to maintain a high level of employment through various fiscal policies which may in themselves exert strong inflationary pressures.

In conclusion, I believe that large labor unions, large business units, and a big government will make it virtually impossible in the long run to maintain a stable price level while maintaining a continuous high level of employment.

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1. Full employment is defined to mean no more than four per cent of the labor force unemployed. This condition has existed every year since 1943, excepting 1949, 1950, 1954.

Albert Griffin, Associate Professor of Business Administration, Emory University:

This indeed is a 64 billion dollar question and one that should be of direct interest to every citizen. Its answer depends in part upon the definition of "continuous high-level employment." Without discussing in detail the problems of definition and measurement that are involved, high-level employment for the United States may be defined as employment of from 96 to 97 per cent of the labor force. In other words, high-level employment would exist as long as unemployment did not exceed 4 per cent of the labor force. In this connection does the word "continuous" mean that the level of unemployment should *never* exceed the limit of 4 per cent, even on a temporary basis? I would not consider the concept of continuous high-level employment to be violated if unemployment reached as much as 5 or 6 per cent for short periods of time or on a seasonal basis.

Next, the phrase "without experiencing a rising price level" should be clarified. "Price level" refers to an average level of prices, such, for example, as the B.L.S. consumers price index, and not to individual prices. Furthermore, the phrase should not require that all fluctuations in the price level be prevented, but only that fluctuations be kept within narrow limits. I do not mean by this a continuous rise of 2 to 3 per cent per year. Another problem concerns the selection of the particular level of prices to keep stable. Also, a stable consumers price level might conceal changes in other groups of prices and relationships between prices that would make the price index selected a false measure of stability.

Even within these limits a number of problems remain. First, as already indicated, during a period of high-level employment and stable prices it is possible for maladjustments to develop which may cause a break in both prices and employment. Second, the activities of many special interest groups in labor, business, and agriculture, as well as welfare activities of government, tend to work in the direction of increased spending, with resulting upward pressures on costs and prices. Third, long before "high-level employment" is achieved, bottlenecks appear in certain scarce labor categories which the imperfectly competitive nature of our economic system does not succeed in eliminating successfully, and these contribute to upward pressures on costs and prices.

It might seem, in view of the many difficulties cited, that the achievement of the goal of high-level employment with stable prices is unattainable. To achieve such a goal would mean solving the problem of business cycles, which we have never been able to do. Certainly, the more strictly the terms are defined, the more impossible the objective becomes. Given a reasonable definition of high-level employment and price stability, and recognizing the difficulties involved, however, I believe (at least I hope) that our knowledge of the tools of monetary and fiscal policy makes the attainment of such a goal economically possible. Whether it will be politically attainable is another question.

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George J. Malanos, Professor of Economics, Georgia State College of Business Administration:

This question must be faced in relation to the conditions of economic growth.

Economic Growth, The Rate of Investment and Full Employment

In recent years considerable emphasis has been placed on the theory of economic growth, and several alternative schemata have been presented laying out the necessary and sufficient conditions. The mechanism for establishing a dynamic equilibrium may be summarized as follows. Equilibrium implies the intersection of the aggregate supply or output function and the aggregate demand function. In any long run analysis output must be considered a function of employment and of capital, and the functional relationship must allow for changes in technique. The aggregate demand function is composed of aggregate consumption, private investment, and governmental expenditures. If consumption is a function of income and of some trend factor (to allow for secular changes) and if governmental expenditures are considered as an exogenous factor, then *private investment* assumes an all impressive role in the determination of income and employment. The condition for dynamic equilibrium is that voluntary private investment is forthcoming in the *right amount* and at the *right time sequence* to equal the time flow of social savings.

Dynamic equilibrium does not ipso facto insure full employment of capital and labor. Equilibrium positions are compatible with alternative levels of employment. If "full employment" or a "high level of employment" is considered a social desideratum, then equilibrium must meet some additional conditions. Voluntary investment has a *dual effect*: from the demand side it *generates purchasing power* in the familiar fashion of the multiplier; from the supply side it *generates productive capacity*. It enables society to produce more goods in the future. There is no necessity for *all rates of investment* or capital accumulation to insure "full employment" equilibrium. On the contrary, under certain well defined conditions[2] only one of these rates may insure such a result. The maintenance of a continued state of full employment requires that investment and income grow at a constant relative rate numerically equal to the marginal propensity to save times the average productivity of investment. An additional condition must also be present. The monetary authority must see that the quantity of money is

2. E. Domar, Essays in the Theory of Economic Growth (Oxford, 1957), pp. 74-79.

increased *pari passu* so as to avert deflationary pressures. Thus, theoretically, price stability becomes one of the conditions of a full-employment dynamic equilibrium.

The question is whether or not the economy can for any prolonged period of time *maintain such a pace in investment activity without lowering the marginal productivity of capital below the effective rate of interest.* We can count on technological discoveries to lift the entire schedule of capital productivity, but would this element be strong enough to offset the downward effect of capital accumulation? No one can really answer this question, especially for as long a period as one generation.

Growth Employment and the Price Level

Having considered *price stability,* I would like to explore further as to whether *deflation* or *inflation* are compatible with a growth economy and a relatively *high level of employment.* There is reasonable agreement among economists that not only "runaway" but even a "mild" deflation has dire consequences on the functioning of the economy. The investor must, under deflationary conditions, add to the market rate of interest on borrowed capital a deflationary coefficient. It is very improbable that an expanding level of investment can be sustained under such conditions. Beyond that, the perennial lag of wages behind prices will soon force employers to reduce employment, and further postponement of expenditures in anticipation of price reductions will undoubtedly lead to very low levels of employment, and will necessitate State action of the most direct form. *Deflation is therefore incompatible with economic growth and a high level of employment.*

Runaway inflation is likewise incompatible with economic growth because it impairs two fundamental functions of money: to serve as a store value and as a means of deferred payments. A country faced with runaway inflation gradually loses all confidence in the national currency and will have to shift its liquid assets to some other form or good, thus jeopardizing the money and the savings and investment mechanisms. The final question is whether a high level of employment can be sustained under a "mild" inflation, let us say an inflation in the neighborhood of one or two per cent per annum. This is particularly important because this is the current state of affairs in the United States, and in my opinion is a situation which will continue for some time due to the strong upward pressures arising from labor union wage demands and wide credit elasticity of the banking system. This inflation may be interspersed with deflationary spells of short duration. We must, therefore, consider a mild inflationary process sustaining itself over relatively long periods. How would such a tendency effect the all important savings and investment process? If savings is either interest inelastic or at least not very sensitive to real interest rate changes, savings will keep on forthcoming at an ever increasing rate because of the impact of rising real income. The investor on the other hand will be favorably affected by "mild" inflation, in so far as he borrows to finance his investments. The real interest he will have to pay will be the difference between the market rate and the inflationary coefficient. Consequently, *a mild inflation may be a significant factor in keeping aggregate private investment sufficiently high to equal the generated social savings at the right time sequence.* This analytical conclusion fails to provide an answer for the socio-economic consequences of inflation: the *penalty* imposed on those segments of population that either have a fixed money income or are claimants and holders of money assets. This is a separate issue which cannot be answered within the confines of this paper.

In conclusion, long-run high level employment is compatible with either price stability or a mild inflation; however, in view of the institutional factors mentioned above, the second alternative is more likely.

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Clarence E. Philbrook, Professor of Economics, University of North Carolina:

It is of course a matter of mere arithmetic that it is *technically* possible to have "continuous high-level employment" even though the price level is not rising: if there be maintained an aggregate demand which will just, but no more than, take off the market all goods offered without a lowering of the average price, then the assurance of full employment requires nothing but the avoidance of too high an average money wage rate; and, given technological advance and capital accumulation of the sort to which we have become accustomed, the maximum appropriate money wage rate and real wage rate will tend to rise from year to year.

The crucial aspect of the question is this: "Is 'the United States' *willing* . . . ?" To be willing must mean, in this context, to stand ready to bear the costs, whether real or merely apparent, of doing so. In this sense the best guess is that we cannot and shall not have high-level employment without inflation.

Currently the overwhelmingly popular version of the problem consists of the question whether organized labor will by unduly upward-pressed money wage rates bring about inflation. There are two types of thought as to how the higher wage rates might have the inflationary effect. Each requires comment.

The first thought is that because higher wage rates mean higher costs, they will assure the typical inflationary condition—rising prices (and, implicitly, full employment). Space limitations preclude unraveling the tangle of loose thinking which permits the notion that a theoretical basis for any

such conclusion has been laid. A few suggestions must suffice. The argument does not approach respectability, of course, unless attention is addressed (although it often is not) to accompanying monetary phenomena. Without the establishment of a resulting increase in either the quantity or the velocity of money, only one conclusion is possible: if prices rise at all, the number of units of goods taken by buyers will be fewer and employment lower: the result to expect is a decline of investment, a fear-inspired decrease in the velocity of money, and a more or less typical downswing in output and employment, which might indeed develop so fast that the price rise would never appear.

In the second (and less usual) type of thought, in which the monetary phenomena are faced, the most typical argument is some equivalent of the proposition that the higher wage rate will result in a higher velocity of money (it ought to be added, of *sufficient degree*). There is space here only to assert that such a statement flies in the face of any coherent monetary theory, and in a sense that implies rejection of the basis of the theory of demand in general. I conclude that the ability of organized labor to overpress wage rates does not by itself tend toward inflation.

The respectable thought is, of course, a political one. If the social contract guarantees not merely an aggregate demand permitting full employment, but full employment itself, then politicians will rush to forestall even a small amount of even temporary unemployment by means of increasing the quantity or the velocity of money. This practice involves guaranteeing a higher price level to accommodate an overpressed average wage rate if it occurs—and of course, more or less continuous inflation in a world of downwardly rigid wage rates.

I conclude that the United States cannot, because it is not willing to, have high employment without inflation. The most fundamental reason is an essential rejection of the price system. The most compelling immediate reason is a determination (a) to regard as appropriate any wage rate which the strategic position of a collectively bargaining group brings about, while (b) tolerating no unemployment. A sane society would guarantee nothing more than a money flow adequate to purchase a full-employment output at a constant price level.

It will be retorted that organized labor may become "responsible" and permit a stable price level. It will not, however public-spirited its leaders may be: means are not available to them for judging the appropriateness of a particular act of abstention, as long as the tenets fundamental to the movement are maintained; it is not to be held against them that as yet, in general, such an idea has eventuated in little or nothing but talk.

To blame much of our post-war inflation on upward-pressed wage rates would be folly. The avoidable part of it is to be accounted for much more in terms of vote-buying and the lack of a genuine monetary policy. However, if I am to be so foolish as to guess the future, my guess must be as indicated. The outcome is not inevitable; even straight talk from economists might turn the tide.

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Donald Paden, Associate Professor of Economics, University of Illinois:

Whether or not the United States in the years ahead achieves continuous high level employment without experiencing a rising price level is a matter for conjecture. Common sense leads us to believe that if the forces impinging upon the economy in the next ten years are like those which have determined the course of events during the past ten years we may expect full employment *with rising prices.*

Before generalizing too hastily, however, we may profitably examine two questions. Are the price increases of the past ten years the result of some special and peculiar circumstance not directly associated with full employment, and hence is this experience of the recent past unlikely to be relevant for the future? Or, alternatively, has the inflation of the past ten years been so intimately connected with full employment that the forces involved are inseparable, and hence is inflation the normal expectation of a full employment world? Without an exhaustive examination of monetary theory and the events and institutions of our economy, answers to these questions must remain somewhat vague. An elementary understanding of the nature of inflation, however, may at least get our inquiry started in the right direction.

Inflation is the consequence of an increase in effective demand under circumstances where it is not possible to increase output—a condition familiarly associated with full employment. The villain of the piece — the increase in effective demand — may originally arise from a number of circumstances, of which deficit spending by governments and investment (financed by the expansion of bank credit) are perhaps the most obvious.

Given such an increase in effective demand, with full employment, the normal working of the pricing mechanism results in a price rise sufficient to equate the value of output to the purchasing power in the hands of the public. Some groups in the economy consequently find that their *real* incomes have decreased. In effect, the pricing process rations the fixed output among groups in proportion to their purchasing power. The unfortunate individuals who were not among those whose income increased find themselves holding the bag. If these people are willing to accept their new and inferior position (or are unable to do anything effective about it) the price rise soon exhausts itself. This

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NOVEMBER 1957
ATLANTA AREA ECONOMIC INDICATORS

ITEM	November 1957	October 1957	% Change	November 1956	% Change	% Change Eleven Months '57 over Eleven Months '56
EMPLOYMENT						
Job Insurance (Unemployment) Payments	$396,586	$548,127	−27.6	$249,718	+58.8	+55.5
Job Insurance Claimants†	6,610	7,722	−14.4	3,718	+77.8	+43.9*
Total Non-Ag. Employment	346,600	344,150r	+ 0.7	346,350r	+ 0.1	+ 1.1*
Manufacturing Employment	87,100	85,250r	+ 2.2	90,800r	− 4.1	− 0.7*
Average Weekly Earnings, Factory Workers	$81.00	$72.01	+12.5	$77.49r	+ 4.5	+ 4.8*
Average Weekly Hours, Factory Workers	40.5	38.1	+ 6.3	41.0	− 1.2	− 1.4*
Number Help Wanted Ads	6,852	8,211	−16.6	9,687	−29.3	−10.9
CONSTRUCTION						
Number of Building Permits§	542	623	−13.0	647	−16.2	−20.1
Value Building Permits§	$2,833,539	$3,141,853	− 9.8	$5,136,245	−44.8	−12.4
Employees	19,700	20,300	− 3.0	18,800r	+ 4.8	− 1.2*
FINANCIAL▲						
Bank Debits (Millions)	$1,546.7	$1,662.4	− 7.0	$1,506.5	+ 2.7	+ 5.4
Bank Deposits (Millions) (Last Wednesday)	$1,087.0	$1,091.1	− 0.4	$1,084.7	+ 0.2	+ 0.2**
POSTALS§						
Postal Receipts	$1,500,979	$1,498,446	+ 0.2	$1,557,230	− 3.6	+ 5.0
Poundage 2nd Class Mail	1,207,548	1,398,679	−13.7	1,414,495	−14.6	+ 7.4
OTHER						
Department Store Sales Index (Adjusted, 1947-49=100)	154	138	+11.6	156	− 1.3	+ 2.0¶
Retail Food Price Index (1947-49=100)	113.2	114.0	− 0.7	110.4	+ 2.5	+ 2.5**
Number of Telephones in Service	301,080	302,061	− 0.3	286,317	+5.2	+ 5.2**

r—Revised *Average month **End of period ¶—Based on retail dollar amounts
§City of Atlanta only. N. A.—Not Available ▲Data from members of the Federal Reserve System only.
†Claimants include both the unemployed and those with job attachments, but working short hours.
Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

BUSINESS ACTIVITY

In spite of the fact that several types of activity are slipping downward, the much discussed acceleration of the downturn in economic activity has not made itself clearly evident in the statistics for the city of Atlanta available at the end of December. In fact, the month of November saw encouraging improvement in some important phases of the local economy. A look at the various series which are indicative of the economic health of Atlanta shows little in the way of a decisive change in the sideways movement which has been under way for the past few months.

The **employment** picture seemed somewhat brighter in November. Improvement was scored in every employment series except **construction employment,** which was off 3.0 per cent from the October level. **Total nonfarm employment** increased 2,450 to total 346,600 for the month of November, up just less than one per cent. **Manufacturing employment** increased 1,850 in November to total 87,100, up 2.2 per cent over October. Average weekly hours increased to 40.5 from 38.1 in October, and average weekly earnings rose from $72.01 in October to $81.00 in November. The demand for labor, as measured by the **number of help wanted ads** in Atlanta newspapers, was somewhat improved for the month of November, *after adjustment was made for seasonal factors,* even though the actual number of ads was 16.6 per cent below the October figure.

Improvement was also noted in the amount of **job insurance payments** as well as in the **number of claimants** for job insurance payments. At $396,586, job insurance payments were 27.6 per cent below October, and the 6,610 new job insurance claimants were 14.4 per cent less than the previous month. Also encouraging is a report made December 22 by Chairman T. M. Forbes of the Advisory Council to the Georgia Department of Labor, Employment Security Agency, in which it was pointed out that, while insured unemployment in the nation is 4.1 per cent at the present, in Georgia it is running only 3.6 per cent. In some states it is as high as 10 per cent.

A warning that this is not the whole picture, however, was contained in a statement made just a few days earlier by Fulton County Welfare Administrator Wellborn Ellis to the effect that during November there were 1,011 applications for financial assistance filed with the County Welfare Department. During October 878 applications were filed, and during November of 1956 a total of 863 were filed. This, as Mr. Ellis pointed out, might well be indicative of rather rapidly growing unemployment in the Atlanta area not reflected in other figures.

The **number of building permits** for the city of Atlanta fell 13.0 per cent from the October figure. At 542 for November, the level was 16.2 per cent below November 1956, and the total for the eleven months of 1957 was 20.1 per cent below the first eleven months of 1956. The **value** of the construction for which these permits were issued was also down. The total for the month of November was $2,833,539, down 9.8 per cent from October and down 44.8 per cent from November 1956. The total for the first eleven months of 1957 was down 12.4 per cent from the same period of 1956. **Construction employment** has not been affected quite so much, being off 3.0 per cent from October, up 4.8 per cent from November 1956, and off 1.2 per cent for the eleven month period of 1957 over the same 1956 period.

The **department store sales index** for the month of November, after seasonal adjustment, stood at 154 (the 1947-49 average is 100), up 11.6 per cent from October and just two points in the index below November 1956. For the four week period ending December 21, department store sales were up 5 per cent in Atlanta over the corresponding four week period in 1956. Only two other of the major cities in the Sixth Federal Reserve District, Miami (+4 per cent) and Tampa (+28 per cent) showed any gain at all, and the increase for the Sixth District for the period was one per cent.

A SYMPOSIUM

(Continued from page 7)

passive acceptance of a lowered standard of living, however, does not seem to be typical. Strategically situated or monopolistically powerful groups of employees and employers seek to recoup their losses by the simple expedient of raising the prices of what they have to sell. The working of the pricing mechanism thus is temporarily thwarted and price rises continue until someone, somewhere, becomes willing to accept a sufficient cut in real income to equate supply and demand. Inflation, meantime, may make additional deficits on the part of the government more urgent or additional borrowing on the part of business (to bring investment projects to completion) an absolute necessity. Thus inflation feeds upon itself and the generation of price increases becomes cumulative.

The much over-simplified process which has just been described is not an unrealistic description of what has happened in the past ten years. During this period, the government debt has risen by about 20 billion dollars, bank loans have increased by roughly 50 billion dollars, and consumer prices have gone up by 18 per cent. The remedies which are usually prescribed for such a situation—government surpluses and tight money—must be used with great care for fear that their application may have disastrous consequences upon employment. As the present recession so aptly illustrates, there is danger of killing the goose that lays the golden eggs.

Institutional arrangements in our economy make it difficult to be sure that "exactly the right amount" of purchasing power is distributed to absorb total output, no more and no less. Therefore, if high levels of employment are maintained during the next generation, it seems likely that there will sometimes be situations in which there is an excess of effective demand. Indeed, it sometimes is suggested that the maintenance of full employment may require just such an excess of demand. Under these conditions the traditional pricing mechanism will operate as usual to bring about equilibrium at a higher price level. Nor is there anything in the current situation which suggests that the various groups in our economy which in the past ten years have offered such effective resistance to the adjustments called for to equate supply and demand at a stable price level will be less effective in demanding and obtaining higher prices and higher wages.

Finally, it should be noted that the preceding discussion is predicated upon a very big if—"if high levels of employment are maintained . . ." The current recession may foreshadow what lies ahead. The present down-turn is surprising only in its tardiness. The basic forces at work have been apparent for many months. Nor does it seem likely—barring some new international crisis—that there will be an immediate revival and a resumption of what has too complacently been called "routine prosperity." While this is the case, of course, consideration of a rising price level will be of more academic than practical concern.

* * * * *

Walter S. Buckingham, Jr., Professor of Economics, Georgia Institute of Technology:

The United States *can* have full employment without inflation. The question is, "*Will it?*"

Inflation is caused by an excess of demand over the supply of goods and services available. Too many dollars chasing too few goods causes prices to rise. Three sources of inflation are consumers, businessmen, and government. Consumers may spend too much, saving too little. Easy credit, encouraging unwise consumption, contributes to inflation from this source.

Business expansion also causes inflation. Firms may invest more in new plants and equipment than consumers save, causing excess demand. In spite of a $1.6 billion government surplus last year prices rose 3 per cent. The main cause was in a "demand-pull" not a "cost-push" of labor on wages and hence prices. Charles Wilson, former GM president and Defense Secretary put it this way, "It is not primarily wages that push up prices. It is prices that pull up wages." This conclusion was also reached by the recent Congressional investigation into inflationary causes. It was found that many businessmen expect continued economic expansion so they set prices to attain a predetermined profit level that *anticipates* not only wage increases but the costs of new plant expansion. Our experience with "administered prices" has been that such prices rise more readily than they fall.

Finally, government is a cause of inflation. Every time the government spends more than it collects in taxes it must borrow the difference, increasing the national debt and thus feeding the fires of inflation. This is a worse kind of inflation than that caused by business expansion because most private investment spending leads to new capacity to produce consumers goods, thus ultimately defeating the very inflation it causes with a flood of goods later. Most government spending does not lead to further consumers goods production, although government research expenditures may.

Governments habitually show more willingness to stimulate falling prices than to arrest rising prices, undoubtedly because falling prices hurt organized, politically-active producer groups in industry, labor, and agriculture, while the burden of rising prices is largely on unorganized consumers. Furthermore, large defense, educational, and other necessary expenditures are more popular than the taxes to pay for them. Congressmen say they get ten letters from people demanding more government spending for specific purposes for every letter protesting the national budget; and, of course, hardly anyone ever advocates higher taxes.

Full employment also has inflationary potentialities. Even in prosperity there are depressed industries and pockets of unemployment. Since the respending of money channeled into these areas cannot be localized, but spreads like ripples to other areas, it is difficult to correct local unemployment problems without causing inflation elsewhere. Also, the labor market adjusts sluggishly because of occupational and geographical immobilities, ignorance of opportunities, and the lethargy of custom and tradition. To keep full employment, some areas will necessarily have labor shortages.

With these powerful inflationary forces at work the odds are against stemming the inflationary tide. To stop it will require (1) more unemployment than we want, (2) direct controls—equally unpalatable, (3) sacrificing adequate defense, schools, and other vital programs we desperately need, or (4) getting along without some personal luxuries. If the first three are ruled out as impractical we are left with a clear, though difficult, choice: more inflation or higher taxes.

JOB INSURANCE IN A FREE ECONOMY

by

L. C. Butcher*

"Issues in Job Insurance" as published in the July 1957 Atlanta Economic Review *raised certain issues which merit further consideration.*

This writer stresses that job insurance in America is not patterned after the British dole, is not and should not be viewed as a welfare program, should remain a Federal-state activity without unduly restrictive Federal standards, and he suggests definite criteria for judging legislative proposals.

Job insurance in the United States was not born in the depression years of the 1930's as most seem to think. The subject of insurance against unemployment had been discussed actively in America since 1907. The Wisconsin plan, the first adopted in the United States, was originally proposed in 1921. It is important to note that the Wisconsin plan was exclusively an American product. It was neither a copy of British unemployment compensation nor a brain child of the Roosevelt Administration. As a matter of fact, the chief architect of the Wisconsin plan, Professor John R. Commons, wrote that:

> . . . it avoided the socialistic features of British law because the state did not go into the insurance business; it avoided paternalism because it did not pay out relief for avoidable unemployment; and businessmen were provided the incentive to make a profit or avoid a loss by improving the efficiency of labor management.

The British plan assumed that unemployment was caused in most part by conditions outside the control of the employer and was thus unavoidable disaster, the cost of which should be borne by the government or society as a whole. They believed that unemployment compensation could do nothing to prevent unemployment, but was only to ease the burden of the unemployed. The employer had practically no responsibility under this system. The payment of benefits did not increase the employer's costs; taxes were at a fixed rate on his payroll; no incentive existed for him to help prevent abuses, or to stabilize employment.

American Concept of Job Insurance

The American concept of job insurance was, and is, that employers could, and do, do a great deal to stabilize employment. The Wisconsin plan recognized that unemployment may have causes other than those for which the employer should be held fully responsible. It held to traditional American views by denying benefits to those who caused their own lack of work. The major emphasis was, and is, jobs and not "doles."

The philosophy, motives, and objectives of the Wisconsin plan were influential in shaping the unemployment compensation title of the Federal Social Security Act of 1935.

Congressional views may be determined from the following excerpts from Senate document of the 74th Congress:

Benefits should be limited to

> . . . partial compensation during a relatively short period following unemployment, while the worker is seeking other employment or waiting to return to his old job.[1]

* * *

> We . . . believe that the Federal law should provide for recognition . . . to employers who have regularized their employment . . . All unemployment cannot be prevented by any employers, but many employers can do much more than they have done in the past to regularize employment.[2]

* * *

> The Senate Finance Committee Report also indicates that the cost of benefits, limited both in amount and duration, "is very properly to be regarded as a part of the legitimate costs of production, to be paid for by the consumer."[3]

From these quotations, it is evident that Congres-

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1. Senate Report No. 628, 74th Congress, First Session, p. 12.
2. Ibid., p. 14.
3. Ibid., p. 12.

sional emphasis was placed primarily upon the payment of cost-related benefits—benefits of a *partial* amount of wages for a *limited* duration, to the *involuntarily* unemployed.

Basis of Weekly Payment

Job insurance weekly amount should aim to provide a basic minimum layer of protection and in no event should be high enough to discourage the incentive for seeking and maintaining employment. The original program was based on the concept that benefits in excess of 50 per cent of the full-time weekly wage would tend to diminish the incentive to seek work and accept suitable work. That concept is still valid today. Since job insurance payments are free of income tax, transportation, clothing, lunch, social security, and other expenses, care must be exercised in establishing the level of job insurance payments to assure that such payments are sufficiently below *take home pay* to keep an incentive for steady employment.

Duration of Payments

The duration of job insurance payments must not be long enough to permit continuous or prolonged co-existence of unemployed claimants and job openings. Job insurance duration should not be of such length as to postpone needed individual adjustments to changed conditions. Extension of maximum duration beyond 26 weeks in any benefit year is at variance with the basic purpose of the law. Six months of unemployment should be the top limit for a "temporary" insurance program. If unemployment persists after this, other programs such as relief and retraining programs would seem to be more applicable.

Eligibility and Disqualification

Eligibility and disqualification provisions serve to restrict job insurance payments to those whose unemployment falls within the scope of protection provided. In a broad sense, these provisions express the public interest because they aid the program to function as intended. Claimants who meet the qualifying wage and employment requirements must also satisfy certain other tests as prerequisites to the receipt of job insurance payments.

Able to Work

Each claimant, in order to receive job insurance, must be "able to work." This qualification is made for the purpose of determining the claimant's current presence in, or absence from, the labor force. It is not a question of skill or training, but largely a physical or medical matter.

Available for Work

Each claimant must be "available for work." This is a test of attachment to the labor force. An individual cannot be on a vacation at the beach and be available for work. Of course there is only one real test for determining availability—the offer of a suitable job. Employers listing their job needs with the State Employment Service assist in providing this work test.

Postponement and Cancellation

Disqualification from job insurance payments differs from the tests of eligibility by reason of the fact that it usually results in a postponement and cancellation of a portion of potential insurance.

The principal circumstances for which postponement and cancellation are imposed are those of fraud, voluntarily leaving employment, discharge for misconduct, and refusal of suitable work. Under Georgia law, if a claimant misrepresents the facts, makes false statements, or fails to disclose facts concerning his eligibility, he forfeits all job insurance rights for more than a year and may be subject to a fine and/or imprisonment. The longest period of postponement and cancellation of a portion of potential insurance for discharge is eleven weeks. This is done when, in connection with his work, the worker has given extreme cause for his discharge. The postponement begins when the claim is made, and may cover any such discharge in the past 52 weeks. For quitting any job during the 52 weeks just before making a claim, or for failing to accept any offer of suitable work during that time, the longest period of postponement and reduction is nine weeks.

In cases in which a labor dispute is involved, the postponement lasts until the end of the work stoppage caused by the dispute if the claimant is participating in or directly interested in the dispute. The payment of job insurance to people involved in industrial disputes is not related in any manner to the basic purpose of the program. It is contrary to the public interest to permit the use of job insurance funds to subsidize employees or employers in case of an industrial controversy.

Job insurance should be paid as a matter of right to individuals suffering a job-connected loss, with the expectation that they will soon be re-employed. Eligibility and disqualification provisions exist in any soundly conceived insurance program.

Financing

The original Social Security Act levied a job insurance tax of 3 per cent upon wages. It further provided that 2.7 per cent could be paid to the state agency administering the insurance fund. The .3 per cent balance is collected by the Federal government to cover administrative expense which is granted to the several states by Congress through a budgetary system. Any balance left is returned to the states' trust funds on a pro rata basis. Through employer experience rating under the Georgia Employment Security Law employers may secure a tax rate as low as .25 per cent (1/4 of 1 per cent).

Unemployed Georgia workers have been paid $165,000,000 in job insurance payments since 1938. Employers have saved $245,000,000 since 1942, when the experience rating provisions became effective.

Principles of Experience Rating

It is generally considered that experience rating

has three principal objectives and advantages which make the case for its use in setting tax rates in the program:

1. Experience rating allocates properly the cost of job insurance as a cost of production to those who are responsible for it. It is a basic principle of the American economic system that the special costs inherent in the production of a given product be reflected in the cost and price of that product.

2. Employment stabilization is a basic aim of the job insurance program. If experience rating were not included in employment security legislation the law would provide no incentive for the employer to do anything to control unemployment. Under flat-rate taxation, as some suggest, the employer could most likely profit by judicious layoffs during difficult times. The record of the states under experience rating is a revelation. A higher degree of stabilized employment has been developed than was previously believed possible. Far-reaching benefits for the economy at large have resulted as employers have solved many problems in irregular operations.

The less efficient manager of labor must reflect higher unemployment costs in his product cost. Under the realities of competition for sales he is induced to reduce those costs if consumers will not pay the price. This cost-consciousness has led to positive benefits in terms of employment stabilization.

3. The incentive for employers to reduce costs by protesting the payment of improper claims is prompted by experience rating and is in the public interest. It makes possible the more effective policing of the system by state administrative officials. Control of claims and the exposition of fraud and abuse are made possible by close employer cooperation. Without it, the claimant may make allegations as to the reasons for his separation without much fear of the discovery of wrongful testimony. Effective employer interest aids in preserving insurance funds for those entitled to them and helps to make sure that those not entitled do not receive them.

The critics of experience rating are actually attacking the basic scope and purpose of the employment security program. They claim that employment stabilization is entirely beyond the scope of individual employer action and that the responsibility for unemployment is collective, involving all of society. On this basis, it is contended that all employers should pay the same rate.

The critics dislike and fear the employer interest stimulated by experience rating. Without employer interest and cooperation, the program could soon be turned into a major tool of socialism. Data on protested and contested claims reveal that the great majority of employers have not tried to delay or prevent the payment of proper claims. There is much evidence, on the other hand, that employer interest in the system has resulted in the denial of many unjustified claims which might otherwise have been paid.

Nationalization vs. Federal-State System

The present Federal-state program represents a potentially effective solution to employment security in this country. The pressure to adopt a completely nationalized program has been so continuous and intense that it deserves consideration.

In 1935 the question of the degree of Federal control to be exercised over employment security programs was a subject of major debate in the President's Committee on Economic Security. On this point the report of the Committee stated:

> All things considered, however, we deem it the safest and soundest policy to confine the role of the Federal Government with respect to this problem at this time to removing obstacles to state action, safeguarding and liquidating the reserve funds and aiding the states with their problems, leaving to them primary responsibility for administration.[4]

The Secretary of Labor was also of the opinion that few Federal minimum standards would be necessary. When these views carried the day, it was a strong blow to the advocates of a completely nationalized system and also to those who believed that a workable Federal-state system could not be developed without the vesting of a considerable degree of control in the Federal government.

Since the inception of the Federal law, there has been continuing pressure for nationalization of the system. Bills have been introduced in Congress to accomplish this in one big step. It has also been tried by innocent-appearing proposals which would accomplish this purpose indirectly. Congress has turned down all such proposals. These proposals have been backed by those who advocate greater and greater centralization of authority in the Federal government.

Acting under the guise of "improving" the system, those who would nationalize indirectly have advocated legislation which would subject the states to increasing Federal standards, remove their discretion in the establishment of weekly amounts and duration, restrict their ability to disqualify unwarranted claims, and do away with experience rating.

Federalization would be fraught with many hazards to our existing political and economic system. Obviously, it would increase Federal control over individuals, businesses, state governments, the economic system in general, and be unresponsive to community needs, as well as spur the growth of an already gigantic bureaucracy.

Grounds for Judging Proposals

Any proposal for changing any portion of the present system of job insurance and employment security should be judged on the following grounds:

1. Does the proposal contribute to the most effective and economically sound fulfillment of the purpose of job insurance?

2. Does the nature of the proposal fulfill tested concepts of the degree of government supervision

4. House Document No. 81, 74th Congress, First Session, January 17, 1935; p. 13.

over individuals and the economy at large?

3. Does the proposal provide for continued state administration without restrictive Federal standards?

4. Is the proposal liable to be a vehicle by which various pressure groups can impose their desires on individuals and the economic system?

5. Does the proposal assure determination of sound weekly amounts, properly financed and efficiently administered?

If these are used in judging all proposals, the true objectives of the program can be achieved without sacrificing any essential elements of the Federal-state system.

Effect on Improvements

A basic argument of the federalizers is that development of a national program would also bring many needed improvements. On the other hand, the states have moved much more rapidly than has the Federal government in correcting deficiencies. Where changes were needed in the states, they have been made; and a comparison of such progress with that of the Federal government under its program of Old Age and Survivors Insurance illustrates how rapidly needed changes might be expected if complete Federal control existed.

Nationalization would prevent the desirable experimentation of the states to find the most efficient and economical ways of providing cost-related payments to those who need them. In place of this, it would bring nationally uniform job insurance amounts out of proportion to local wage levels, incomes, business conditions, and other local realities.

Effect on Administration

From the administration standpoint, there is little question that centralization would make administration slow, costly, and inequitable.

The federalizers would embark upon an untried program having disadvantages which far outweigh any benefits it might have. The many sound features of the present Federal-state system would be sacrificed in favor of an inflexible, centralized scheme which might be inequitable, more costly, and dominated by the "social welfare" attitude.

This is not to say that the existing system need not be improved. However, the states have given and can be expected to give increasing consideration to improvements in job insurance amounts, coverage, eligibility questions and other important factors. It is to be expected that such improvements will continue to be made, consistent with conditions within the states.

THE SOUTHEASTERN CORNER

by

Warren A. Walker*

TEXTILES IN THE SOUTHEAST

One of the most difficult questions in economics is why an industry moves out of one area and into another. It is a difficult question, not because no reasons are known, but because so many reasons are possible. It is a very easy matter to assign *a* reason, but it is an enormously complex proposition to assign a correct *set* of reasons and give them their proper relative weight.

In addition, the specific reasons and relative weights will vary with each individual case. There are three rather broad classifications of factors that are almost always involved in the movement of industry. The classical economists said that there were three factors of production: land, labor, and capital. These three factors are still involved, but as a practical matter their meaning changed somewhat when we shifted from a primarily agricultural economy to a primarily industrial economy.

This is especially true when we discuss why a product was once produced primarily in one area and has now shifted in large measure to another area. In place of the simple, but elusive, word "capital," we now have "marginal utility of capital." Books have been written on the exact technical meaning of this phrase, but what it means to the businessman and banker is, "Under what circumstances does money earn the most money?"

Next we consider the term "labor," and what it means. We often hear the terms "cost of labor" and "cheap labor" as the explanation for everything from geographical shifts of industry to foreign penetration of domestic markets, and it sometimes is. But these are deceptive terminologies unless clearly analyzed. Low labor costs do not really

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While this article contains no direct quotations except as noted, the writer wishes to express his indebtedness to the following persons: the editors of **American Textile Reporter** and **Textile Industries** and to professor Clyde Jones, formerly of Georgia State College. These men through various articles and lectures have provided much of the background material of this article.

have anything to do with what the worker is paid per hour, or per week, or per month. The important thing is what he is paid *per unit of production.*

Land will be the subject of an entirely separate article. Suffice it to say for the present that land costs are still a factor in the location of industries, and that planned industrial tracts with adequate utilities and favorable tax climate do have a strong attraction for industrial plants.

What is the application of these factors to the case at hand; namely, why the heavy movement of textile industries from the Northeast to the Southeast? Each of these factors played a part although the first two (capital and labor) played a much larger part than the third.

First of all we should get a clear picture of what really happened and when it happened. To answer the second part first, practically all of this movement has occurred within the life span of still living men. What really happened was not so much that textile companies then in business suddenly transferred their operations to the South, but rather that as new plants were built they were built in the South. It is true that some of the larger northern mills began branch operations in the South, but this was not a basic characteristic of the movement.

Interestingly enough, although the increasing improved availability of capital for southern mills was one of the main reasons for this movement, it was not, for the most part, southern capital. This capital flowed from the financial centers of the North. It traveled more than a thousand miles from Boston and New York into the Carolinas, and Georgia and Alabama.

The reasons for this southward flow of capital are almost as obscure as its pattern. Part of the reason was improved technology, and part of the reason was the low cost of southern labor. Keep in mind, however, the distinction made earlier between low labor costs and low hourly wages.

The technological changes were in textile machinery itself. The automatic loom first made its appearance around the turn of the century and is typical of the changes that were taking place. These looms were a great deal more expensive than the older types, and their adoption for replacement equipment in established mills occurred very slowly.

Parallel with mill owners' reluctance to buy the new equipment because of its price was the reluctance of labor to use it. Over a period of years the work loads in northern mills had become well established, and the workers did not want to produce more, even with the assistance of automatic machinery. The old bogeymen of overloading and technological unemployment were resurrected. The net result to many of these workers in the long run was not overloading, but no load at all; not technological unemployment, but actual unemployment, real and permanent.

In the South, on the other hand, just the opposite situation was taking place. Automatic equipment in southern mills was the original equipment, and there was no decision regarding change-over to be made. Of course the legal title to equipment in these mills, and sometimes even the mill itself, was

THE TEXTILE INDUSTRY: A COMPARISON BETWEEN THE SOUTHEAST AND NORTHEAST—1957

	Spinning		Weaving		Knitting		Synthetic
	Number of Mills	Number of Spindles[1]	Number of Mills	Number of Looms[2]	Number of Mills	No. of Knitting Machines[3]	Number of Mills
SOUTHEAST							
Alabama	60	1,860,163	44	32,320	30	2,887	3
Florida	1	4,732	3	39	12	167	2
Georgia	131	3,769,352	106	62,749	71	10,969	1
Louisiana	3	43,635	1	1,362	2	172	
Mississippi	7	124,398	8	2,390	17	1,619	
North Carolina	357	7,430,597	196	97,594	482	49,893	3
South Carolina	162	6,421,366	173	148,596	31	2,587	4
Tennessee	39	799,138	19	8,112	91	17,585	7
Totals	760	20,453,381	550	353,162	736	85,879	20
NORTHEAST							
Connecticut	44	428,422	52	9,087	27	1,757	5
Maine	52	587,002	45	11,408	14	98	
Massachusetts	134	1,971,577	168	44,074	75	4,814	
New Hampshire	52	426,809	53	8,533	17	1,045	1
Rhode Island	69	830,799	104	15,953	17	864	1
Vermont	17	65,908	13	1,240	5	151	2
Totals	368	4,310,517	435	90,295	155	8,729	9

1. Includes spinning, twisting, throwing spindles—all manufacturing systems and fibers.
2. Includes both broad and narrow looms.
3. Includes circular, full-fashioned, and other type knitting machines.

Source: **Textile Industries**, W. R. C. Smith Publications, Atlanta, Georgia.

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vested in northern banks and equipment manufacturers, but for the first time the South was processing its own products in quantity.

As for southern labor, workers were mostly "fresh from the farm" and had no preconceived notions about what their work loads should be. This was low cost labor because they worked harder and used the best available equipment—production was up and unit costs were down. These low production costs made this type of enterprise profitable, and a profitable enterprise can always attract additional capital—and so the cycle was begun.

Present Distribution of the Textile Industry

The comparative figures[1] shown in the accompanying table dramatically illustrate the extent of the movement of the textile industry by 1957. It will be noted that there are eight states in the southeastern tabulation and only six in the northeastern tabulation. Some economists feel that Mississippi and Louisiana should not be considered a part of the Southeast as far as the pattern of textile industries is concerned. As was indicated in the first article of this series,[2] if there is disagreement as to what constitutes the Southeast in a particular activity, the states will be listed *individually*. This has been done in this case.

In considering statistical material relative to the textile industry it is usually examined in two ways. One way is to count the number of mills engaged in spinning, weaving, or knitting. The other is to count the number of machines these mills have available for each of these processes. The reason for doing it in this way is so that comparisons may be drawn of average size, productive potential, etc. It also tends to avoid the distortions that would occur if there happened to be a very small number of large mills, or a very large number of small mills in a particular locality.

In recent years it has become customary to add the number of mills equipped to process synthetic fabrics in a particular locality. The number of machines is usually not included in this category as they are of a highly specialized nature and comparisons would be almost meaningless.

The Tampa Trade Area will be covered in next month's "Southeastern Corner."

1. These figures were compiled by and are used with the permission of **Textile Industries**, a monthly publication of W. R. C. Smith Publications, Atlanta, Georgia.

2. "The Southeastern Corner," **The Atlanta Economic Review**, December 1956, pp. 14-15.